

New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Oversight of Security Expenses in Single Adult and Adult Family Homeless Shelters

New York City Department of Social Services



Executive Summary

Purpose

To determine whether the New York City Department of Homeless Services (DHS) is adequately monitoring the security expenses at single adult and adult family homeless shelters and whether security equipment inventory records are adequately maintained. Our audit covered the period from July 1, 2014 through September 14, 2017.

Background

The New York City (City) Department of Homeless Services (DHS), an administrative unit of the New York City Department of Social Services (DSS), is the primary agency responsible for providing transitional housing and services for eligible homeless families and individuals in the City and for providing fiscal oversight of the homeless shelters. Governed by a “right to shelter” mandate, the City provides temporary emergency shelter to every eligible person who requests services. Homeless shelters provide security to ensure the safety and security of all residents. Shelter providers can use their own security employees, procure contracted security services, or use a combination of both. In addition, both DHS and providers procure security-related equipment (e.g., metal detectors, security cameras).

DHS is responsible for monitoring shelters’ security expenses to ensure they are appropriate and in compliance with contract requirements. DHS relies on various internal and external resources to guide its oversight, such as the New York City Department of Homeless Services’ Human Service Providers Fiscal Manual and the New York City Procurement Policy Board (PPB) rules. For DHS monitoring purposes, among other provisions, providers are required to:

- Submit annual budgets, including security expenses, to DHS for review and approval for the upcoming fiscal year;
- Maintain proper and sufficient documentation of expenditures (e.g., vouchers, bills, receipts) as evidence of their propriety and necessity;
- Keep DHS contract-related records (e.g., contract proposals, personnel time sheets) for at least six years, and make records available for review by auditors and government officials;
- Follow the Request for Proposal process when procuring security services to ensure competitive bidding; and
- Develop standard operating procedures (SOPs) to ensure that adequate controls over timekeeping and payroll processes are in place.

In addition, DHS is also responsible for the proper accounting of City-owned security equipment in the possession of shelter providers. Toward this end, DHS requires providers to submit inventory maintenance procedures within periods ranging from 10 to 30 days of contract commencement to ensure that providers maintain accurate records to account for all equipment, furnishings, and supplies purchased with DHS funds.

As of June 27, 2017, DHS held 93 registered contracts (140 locations) for single adult and adult family shelters with security budgets totaling \$88.5 million for City fiscal years 2015 through 2017. As of July 1, 2017, the number of residents in adult family shelters and single adult shelters totaled 18,972.

In August 2016, DHS and the New York City Human Resources Administration began integrating into a single management structure under DSS. Under this plan, shelter system management is provided by DHS. During this audit, DHS officials advised us that they were in the midst of a large-scale reorganization and, as a result, had undertaken a significant examination and reform of many of the policies and processes under review in this audit. Additionally, DHS entered into a memorandum of understanding with the New York City Police Department to deploy a Management Team to oversee DHS' security personnel (peace officers) and DHS-contracted security personnel. However, DHS retained responsibility for providing fiscal oversight of all security-related expenditures.

Key Findings

- DHS did not have adequate written SOPs to guide staff on how to perform and document the required oversight reviews and inventory record-keeping practices at shelter locations.
- DHS did not consistently comply with its own policies to perform periodic reviews of shelter providers' security expenditures. During our review, we found significant compliance-related issues that accounted for \$2.2 million in insufficiently documented and/or questionable security expenses.
- DHS did not ensure that providers complied with competitive bidding requirements and maintained adequate supporting documentation.
- DHS did not maintain inventory records of shelter security equipment. In addition, DHS did not ensure that providers established and submitted inventory maintenance procedures and security equipment inventory records, increasing the risk of loss, theft, or misuse of valuable and vulnerable assets. For the four sampled providers, we estimate that \$229,507 in City-owned equipment was not being properly accounted for.
- According to DHS officials, all security equipment purchased for providers using City funds is owned by DHS. However, DHS did not ensure that contract clauses were consistent with requirements regarding the ownership interest of security equipment and submission of inventory records.

Key Recommendations

- Establish clear, written SOPs for required expenditure reviews and complete monthly expenditure reviews, as required.
- Ensure that providers comply with their contractual requirements to retain sufficient documentation supporting proper procurement and payment of security services.
- Maintain a current inventory of security equipment at all shelter locations and ensure that providers comply with all contractual inventory requirements.
- Maintain consistency in contract clauses, including ownership interest of security equipment and submission of inventory records.

Other Related Audits/Reports of Interest

[Office of Temporary and Disability Assistance: Oversight of Homeless Shelters \(2015-S-23\)](#)

[New York City Department of Homeless Services: Oversight of Selected Fiscal Aspects of Homeless Shelter Services \(2016-N-1\)](#)

**State of New York
Office of the State Comptroller**

Division of State Government Accountability

May 7, 2018

Mr. Steven Banks
Commissioner
New York City Department of Social Services
150 Greenwich Street, 42nd Floor
New York, NY 10007

Dear Commissioner Banks:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report, entitled *Oversight of Security Expenses in Single Adult and Adult Family Homeless Shelters*. The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III of the General Municipal Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this draft report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*

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Background

The New York City (City) Department of Homeless Services (DHS), an administrative unit of the New York City Department of Social Services (DSS), is responsible for shelter system management of homeless shelters in the City. DHS classifies adult shelters into two basic groups: adult shelters (for single adults) and adult family shelters. DHS considers a single adult to be any man or woman age 18 and older who seeks shelter independently, without being accompanied by other adults or minors. DHS considers an adult family to be any family without minor children. Although DHS directly owns and operates seven adult shelters, the majority of shelters are operated by private providers (for-profit and not-for-profit) through contracts with DHS. A typical provider contract includes provisions for procurement, inventory procedures, and maintenance of records. As of June 27, 2017, 140 adult shelters operated in the City through 93 registered contracts with DHS totaling \$88.5 million for City fiscal years 2015 through 2017.

Under Title 18 of the New York Codes, Rules and Regulations, DHS is responsible for ensuring that all shelters operating under its regulatory purview are providing security and protecting the physical safety of shelter clients and staff. Toward this end, DHS requires providers to develop security plans and implement appropriate security measures, as stipulated in the provider contracts. Shelter providers can hire their own security employees, procure contracted security services, or use a combination of both. DHS is also responsible for monitoring shelters' security expenses to ensure they are appropriate and in compliance with contract requirements. DHS relies on various internal and external resources to guide its oversight, such as the New York City Department of Homeless Services' Human Service Providers Fiscal Manual (Fiscal Manual) and the New York City Procurement Policy Board (PPB) rules. For DHS monitoring purposes, among other provisions, providers are required to:

- Submit annual budgets, including security expenses, to DHS for review and approval for the upcoming fiscal year;
- Maintain proper and sufficient documentation of expenditures (e.g., vouchers, bills, receipts) as evidence of their propriety and necessity;
- Keep DHS contract-related records (e.g., contract proposals, personnel time sheets) for at least six years, and make records available for review by auditors and government officials;
- Follow the Request for Proposal (RFP) process when procuring security services to ensure competitive bidding; and
- Develop standard operating procedures (SOPs) to ensure that adequate controls over timekeeping and payroll processes are in place.

The Fiscal Manual not only contains fiscal and administrative policies and guidelines to assist providers with managing their day-to-day and annual operations in accordance with their contracts, but also information regarding important oversight services provided by DHS to ensure providers are in compliance with their contracts and that DHS money for security at shelters is spent efficiently and in accordance with applicable regulations and policies. These services include:

- Provider expenditure reviews;
- Periodic desk audits of provider invoices;
- Contracted certified public accountant (CPA) financial and compliance audits of each provider's contract; and
- Annual provider budget reviews.

In addition, DHS is also responsible for the proper accounting of City-owned security equipment in the possession of shelter providers. Toward this end, DHS requires providers to submit inventory maintenance procedures within periods ranging from 10 to 30 days of contract commencement to ensure that providers maintain accurate records to account for all equipment, furnishings, and supplies purchased with DHS funds.

At the time we selected our sample of provider contracts for review in January 2017, there were 89 registered contracts with cumulative security budgets totaling \$78.2 million. From these contracts, we selected a judgmental sample of four shelter contracts that had the largest security budgets and contained both personal service and other than personal service costs (see Table 1). For the audit period, these four providers had security budgets totaling approximately \$12.6 million. Because a contract may cover multiple shelter locations, within each shelter contract, we selected the shelter with the largest security budget for our review.

Table 1 – Sample Provider Contracts

Provider/Shelter Location	Contract Value	Security Budgets
Acacia Network – The Stadium	\$68,498,239	\$4,706,748
Neighborhood Association for Inter-Cultural Affairs, Inc. (NAICA) – Bronx Park Avenue	72,948,462	3,122,180
Samaritan Village – Myrtle Avenue	30,104,893	2,438,590
SCO Family of Services (SCO) – El Camino Inn	34,127,760	2,288,501
Totals	\$205,679,354	\$12,556,019

In August 2016, DHS and the New York City Human Resources Administration began integrating into a single management structure under DSS. Under this plan, shelter system management is provided by DHS. During this audit, DHS officials advised us that they were in the midst of a large-scale reorganization and, as a result, had undertaken a significant examination and reform of many of the policies and processes under review in this audit. Additionally, DHS entered into a memorandum of understanding with the New York City Police Department to deploy a Management Team to oversee DHS' security personnel (peace officers) and DHS-contracted security personnel. However, DHS retained responsibility for providing fiscal oversight of all security-related expenditures.

Audit Findings and Recommendations

The Fiscal Manual outlines oversight procedures for expenditure reviews and financial and contract compliance audit checks; however, DHS lacks strong internal controls – most notably DHS-specific SOPs – to maximize the effectiveness of these tools. Our review of the four sampled providers' security expenditures alone identified nearly \$2.2 million in insufficiently documented and/or questionable security expenses, indicating that significant monitoring gaps exist.

Furthermore, DHS does not maintain, or hold providers accountable for maintaining, accurate and complete inventory records of City-owned security equipment in use at homeless shelters, increasing the risk of loss, theft, or misuse of valuable and vulnerable assets. For the four sampled providers, we estimated the value of these assets at \$229,507.

In the absence of stricter fiscal, contract, and inventory controls over providers' security operations, DHS management does not have reasonable assurance that budgeted money intended for security at adult homeless shelters is used effectively, efficiently, and appropriately and that security equipment is safeguarded from loss, theft, and misuse. Particularly during times of transition, as is occurring within DSS, strong internal controls are critical to mitigate inherent risks and ensure continuity of processes and thorough oversight.

DHS Monitoring of Security Expenses

Expenditure Reviews

DHS is required to review at least one month of a provider's current or prior fiscal year expenses to determine whether the expenditures were adequately supported, were for services that met contractual stipulations, and were approved by DHS officials. Although DHS officials told us their Program Administrators and Program Analysts perform these monthly expenditure reviews as required, they could not provide us with any documentary evidence for three of the four sampled contracts, such as checklists with sign-offs. Consequently, we have no assurance that the providers' expenditures were adequately supported and properly authorized.

DHS does not have written SOPs to guide Program Administrators and Program Analysts in performing and documenting the required expenditure reviews. Moreover, the lack of written SOPs may cause inconsistencies in how the expenditure reviews are conducted. For example, according to DHS officials, Program Administrators and Program Analysts randomly select three line items from a provider's monthly invoice and review those expenses for supporting documentation. One Program Administrator explained to us that budget line items can be selected based on the reviewer's judgment rather than on a random basis, while another Program Administrator stated that most of the budget line items are reviewed. Although some professional judgment is reasonable during the expenditure reviews, significant inconsistencies in the selection of budget line items and the lack of documentation of the review may increase the risk of inappropriate and/or unauthorized expenditures.

Audit Services

According to the Fiscal Manual, DHS Audit Services (now called DSS' Office of Audit and Quality Assurance Services) routinely conducts annual financial and compliance audits of providers through its contracted CPA firms. Over a three-year cycle, it is expected that each provider will be audited at least once. Although we determined that the annual financial and compliance audits for our sampled providers had been conducted within DHS' established time frame, as detailed later, we identified significant compliance-related issues involving \$2.2 million in reported security expenses, calling into question the adequacy of these audits.

According to the July 2014 Fiscal Manual, DHS' Office of Finance may conduct periodic desk audits of provider invoices, which are focused on specific lines in the provider's budget that represent a significant cost or risk. DHS officials informed us that they did not conduct any desk audits during the audit period, explaining that any potential findings would most likely duplicate the findings from their monthly expenditure reviews. We disagreed with this explanation as these desk audits would be completed by a DHS auditor and not a Program Administrator or Program Analyst, and would be an added measure of assurance, especially given the risk that the required expenditure reviews may not actually have been conducted. In addition, we found no evidence that DHS performed a risk assessment that concluded desk audits are unnecessary. It should also be noted that, in the March 2017 Fiscal Manual update, DHS officials eliminated desk audits from the list of audit services – again without the benefit of performing a risk assessment of the change.

Annual Budget Reviews

The Fiscal Manual requires providers to submit an annual budget to DHS for review and approval. The budget review serves two important functions: to reduce the need for budget modifications throughout the upcoming fiscal year, and to ensure that both the provider and DHS are operating with the same formally approved budget. Again, we found DHS does not have a specific SOP governing the specifics of how these reviews are conducted; however, DHS officials advised us that budgets should be approved before the start of a new fiscal year.

Based on our examination of 12 budget reviews for the three fiscal years ended 2017 for our sample of providers (4 shelter contracts × 3 years), we determined DHS generally has not been able to review and approve budgets in a timely manner. Of the 12 contract budgets, 10 (83 percent) had not been approved before the start of the fiscal year. For example:

- For the three years sampled, budget reviews for SCO were consistently approved after the start of the fiscal year, ranging from 34 to 46 days late.
- The fiscal year 2017 budget review for the Samaritan Village contract was not approved until 190 days after the start of the fiscal year. Both DHS and provider officials advised us that the significant delay was due to a delayed registration of a contract amendment.

Although circumstances such as registration periods can delay contract budget submissions, budget review and approval after the fiscal year commences hinders oversight because the provider and DHS may not be working with the same, formally approved budget. For example, we

note that, for the four sampled contracts, there were 26 budget modifications and amendments totaling approximately \$2.2 million. We question whether some of these budget modifications and amendments could have been avoided if DHS had approved the budget reviews before the start of the fiscal year.

DHS Oversight of Provider Contract Compliance

DHS contracts require providers to maintain proper and sufficient evidence, vouchers, bills, and receipts showing the propriety and necessity of any and all expenditures in the monthly financial report form. In addition, providers agree to retain all books, records, and other documents relevant to the contract for six years after the final payment, expiration, or termination of the contract or for a period otherwise prescribed by law (e.g., PPB rules), whichever is later. The contract also requires providers to retain records detailing the method of security services procurement; the basis for selection or rejection of a contractor, consultant, or supplier; and the basis for the contract price.

To test the reliability of DHS' methods of contract oversight, we reviewed the security expenses for our sample of four shelter contracts (for fiscal years 2015 to 2017). We identified significant compliance-related issues that account for \$2.2 million in insufficiently documented and/or questionable security expenses.

Security Service Procurement

Competitive bidding ensures that funds are spent to obtain high-quality goods and services at a fair and reasonable price. Contracts are awarded only to responsible vendors that demonstrate business integrity, financial capacity, and the ability to fulfill the requirements of the contract. In procuring security services through a vendor, DHS contracts and PPB rules require providers to solicit at least three bids through an RFP process. In addition, providers are required to maintain all documentation associated with the bidding process, including records showing the basis for selection or rejection of a vendor.

We reviewed the four sampled providers' contract bidding documentation to determine whether providers followed bidding requirements in awarding security services contracts – and thus whether their reported security services expenses were proper. (We note that the bidding documentation for each of the sampled shelters was part of a larger bidding/contract process that covered multiple shelters operated by a specific provider. Using the bidding documentation, we were able to break out the security costs associated with a specific shelter.)

For two of the four sampled providers, we identified bidding weaknesses that account for a total of \$2,035,988 in questionable payments, as follows:

Samaritan Village:

- In fiscal year 2017, Samaritan Village awarded the security services contract to a vendor

whose bid was 16 percent higher than the lowest bid proposed (an annual cost totaling \$824,421 compared with \$709,171 – a difference of \$115,250) without any documentation supporting the higher-cost choice.

- For fiscal years 2015 and 2016, Samaritan Village reported security service expenses totaling \$1,071,704. However, we found Samaritan Village did not maintain records for any of the bid proposals. Thus, for these two fiscal years, there is no assurance that the selected bid was reasonable and justified.

NAICA:

- In fiscal year 2016, NAICA awarded the contract to the lowest-bidding vendor, whose proposal included the provision of six guards per day at a cost totaling \$252,632. However, this same vendor actually provided ten guards per day at a total cost of \$441,705 – a difference of \$189,073 (75 percent). NAICA did not have an addendum to its RFP that addressed this increase in the number of guards or the additional cost, nor was there any documentation to support these changes.
- For fiscal years 2015 and 2017, NAICA reported security service expenses totaling \$659,961. However, we found that NAICA officials did not maintain records of any vendor proposals, and we therefore have no assurance that the selected bids were reasonable and justified.

Expenses for Contracted Security Services

According to contractual requirements, all security service invoices must be supported by employee sign-in sheets documenting hours of service. We examined documentation for a judgmental sample of two months (August 2015 and March 2016) to support providers' security service vendor expenses. We determined two providers – Samaritan Village and SCO – billed a total of 5,527 hours, totaling \$80,395, for which there was no supporting documentation.

- Samaritan Village accounted for the largest share: Of its 6,560 hours billed (totaling \$99,718), 4,171 hours were not supported, accounting for \$63,303 of the total amount invoiced (or 63 percent).
- For SCO, of 8,796 hours billed (totaling \$110,916), 1,356 hours were not supported, accounting for \$17,092 of the total amount invoiced (or 15 percent).

Provider contracts also require that shelter security service vendor personnel be licensed by New York State – a higher qualification for which it is likely that these providers pay a premium and which translates to increased expenses on annual budgets. For a sample of 24 security service personnel – 3 at SCO, 6 at NAICA, 8 at Acacia, and 7 at Samaritan Village – who worked in both August 2015 and March 2016, we were able to verify that 19 held a valid New York State Security Guard license. For the remaining five (all at Samaritan Village), there was no documentation supporting their qualifications. According to Samaritan Village officials, the five guards in question were no longer employed by the provider, and their security qualification documents had been discarded after their employment had terminated. Without such documentation, however, there is no assurance that these security service personnel were qualified and that the \$21,837 in compensation was proper.

Expenses for Employee Security Services

When an employee is unable to record his or her time worked using a time clock, the time sheet is manually adjusted to record the missing time. According to the sampled providers' timekeeping procedures, employees are required to complete a time adjustment form, which must be approved by the employee's supervisor, before manual adjustments are made. To determine whether adjustments – and resulting increased expenses – were properly supported, we selected and reviewed a random sample of time records for time adjustments for employees who worked in both August 2014 and April 2016. During this period, nine employees were paid \$57,094 for 2,686 reported hours; however, our review found no support for 388 hours of manual adjustments, which accounted for \$10,399 in payments (18 percent) (see Table 2). For example, at Acacia, the hours of service for one security employee were manually entered every day in August 2014; however, there was no supporting documentation for any of the adjustments. Acacia officials explained they could not locate these forms.

Table 2 – Provider Security Personnel Time Discrepancies

Provider	Compensation	Hours Billed	Hours Not Supported	Compensation Not Supported
Acacia	\$12,667	294	118	\$5,045
NAICA	33,418	1,741	249	4,920
Samaritan Village	4,089	316	0	0
SCO	6,920	335	21	434
Totals	\$57,094	2,686	388	\$10,399

In addition, according to the provider contracts, security personnel need to hold a valid New York State Security Guard license. However, we found that, from the end of June 2017 until February 2018, Acacia's Security Director was working under an expired New York State Security Guard license. Thus, during this "expired status" period, not only was the provider not in compliance with the DHS contract, but the Security Director's lack of up-to-date security training may have placed the safety of shelter residents and staff at increased risk. During the period of non-compliance, the Security Director was paid \$38,284. Had DHS monitored the credentials of the provider's security employees as afforded by the contract, this oversight may have been prevented.

Controls Over Security Equipment

DHS is responsible for creating inventory controls and maintaining accurate inventory records of City-purchased assets, as established in New York City Office of the Comptroller Directive 1 (Principles of Internal Control). Directive 1 is a best practices guideline for agency management and staff in evaluating internal controls over fiscal operations and the inventory of assets, including accurate and complete inventory records and the performance of physical inventories (spot-checks). We found that DHS has not established proper inventory controls, internally or externally, to ensure accurate record keeping and security of City-owned equipment, and thus has no assurance that vulnerable assets are properly accounted for and safeguarded against loss,

theft, or misuse. Poor oversight stems largely from a lack of SOPs to guide consistent practices and ensure provider compliance.

Inventory Records

Despite the guidance in Directive 1, DHS does not maintain formal inventory records of security equipment for shelters. As DHS officials explained, they assume that providers have an adequate inventory record-keeping system. However, DHS has no controls in place to ensure providers are maintaining an accurate and complete inventory, and thus cannot reliably be assured that vulnerable assets are properly accounted for and safeguarded against loss, theft, or misuse, as our site visits confirmed:

- At NAICA, officials did not maintain an inventory listing of security equipment.
- At the remaining three shelters, inventory records were neither accurate nor complete, based on a comparison of the security equipment lists we compiled with equipment we observed, as follows:
 - At Samaritan Village, we found 80 security cameras, whereas the provider’s inventory records listed only 74.
 - At SCO, we found 76 security cameras, whereas the provider’s inventory records listed 69.
 - Acacia’s equipment list did not always include a detailed breakdown of each item in a bundled purchase or the correct quantities so that each item could be properly tracked. For example, a single item on Acacia’s list, labeled “Surveillance System & PTZ Camera, Door Syst,” actually comprised 22 security cameras. Without the necessary detail, these pieces of equipment are particularly susceptible to theft and misuse.

Furthermore, DHS doesn’t require providers to submit inventories annually as an extra measure of control. Of the four sampled providers’ contracts, only the SCO contract contained this requirement, but, like the other providers, SCO did not submit an inventory list. In addition, none of the four sampled providers submitted inventory maintenance procedures as required – in fact, Samaritan Village and SCO had not even developed them. NAICA submitted its inventory maintenance procedures to DHS in August 2017 – seven years after the beginning of the contract and most likely as a result of our audit. Inventory maintenance procedures are intended to ensure providers are properly accounting for all equipment, furnishings, and supplies purchased with DHS funds.

DHS advised us that its Program Analysts conduct announced inventory spot-checks twice per month at the shelters, generally after the purchase of new security equipment to verify that the shelters actually received the items; we note, however, that no written SOPs exist documenting this specific direction. The lack of SOPs was likely the cause for the discrepancy between DHS’ stated policy and our common finding: None of the four shelters received any spot-checks by DHS; at SCO, this was further confirmed by both a DHS Program Analyst and SCO officials. In addition, we found that the written job description of the Program Analyst position did not include any duties relating to equipment inventory review at shelters. Moreover, DHS officials could not provide written SOPs for shelter inventory oversight other than the criteria listed in the provider

contracts. Without formal written inventory procedures or job descriptions specifying inventory oversight duties, DHS cannot adequately manage and oversee shelter security equipment.

Based on the security equipment lists we compiled during our site visits, we estimate that, collectively, the four providers held security inventory with a total value of approximately \$229,507, or an average of \$57,377 per shelter. Overall, we determined that City-owned security equipment is not being properly accounted for and thus is at risk of loss, theft, or unauthorized use.

Equipment Ownership Language in Contracts

According to DHS officials, all security equipment purchased for providers is owned by DHS. However, language specifying this was not evident in all contracts. For example, two of the four shelter contracts we sampled (NAICA and SCO) stated that the title to all property furnished by DHS or the City shall remain the property of DHS or the City. The remaining two contracts (Acacia and Samaritan Village) stated that the title to all equipment with a purchase price in excess of \$5,000 must be in the name of the City, implying that equipment furnished by DHS costing \$5,000 or less could belong to the provider.

Further, we note that, in the renewal of the SCO contract, the clause pertaining to the ownership of security equipment purchased for providers and reimbursed under the contract had been eliminated. DHS advised us that this might have been an oversight and the clause should have remained. Therefore, we determined that DHS officials did not thoroughly review the terms of contracts to ensure consistency.

Recommendations

1. Establish clear, written SOPs for required expenditure reviews.
2. Complete monthly expenditure reviews of provider expenses and maintain documentation of the reviews.
3. Complete annual budget reviews prior to the beginning of the fiscal year.
4. Follow up on the expenditure discrepancies we identified and take appropriate action.
5. Ensure that providers comply with their contractual requirements to retain sufficient documentation supporting proper procurement and payment of security services.
6. Periodically review the credentials of providers' security personnel.
7. Maintain a current inventory of security equipment located at all shelters that reflects best practices for inventory record keeping.
8. Ensure that providers comply with all contractual requirements, including the submission of

inventory maintenance SOPs and security equipment inventory records.

9. Maintain consistency in contract clauses, including the submission of inventory records.
10. Maintain consistency in contract clauses, including ownership interest of security equipment, and remove the “in excess of \$5,000” language.

Audit Scope, Objectives, and Methodology

The purpose of this audit was to determine whether DHS is adequately monitoring the security expenses at homeless shelters and whether security equipment inventory records are adequately maintained. Our audit covered the period from July 1, 2014 through September 14, 2017.

To accomplish our objectives and to evaluate internal controls, we reviewed relevant laws and regulations that identify DHS’ fiscal oversight responsibilities of its human service contracts and providers. We interviewed DHS officials and staff to gain an understanding of the homeless shelter security budget, procurement, and payment processes and the underlying controls. We reviewed standard operating procedures and contracts related to security expenditures. Also, we conducted observations of security equipment at shelters.

Furthermore, we selected a judgmental sample of four shelter provider contracts in order to determine compliance with DHS contracts, DHS policies and procedures, and provider policies and procedures. These four contracts were selected because they contained both security-related personal service and other than personal service costs. Because a contract may cover multiple shelter locations, we selected the shelter with the largest security budget in the contract as a representation of the entire contract. Further, we selected a random sample of two months of shelter security personal services and a judgmental sample of two months of security other than personal services to determine whether DHS-reimbursed security expenditures were authorized and adequately supported. To determine whether the sampled shelters maintained adequate security equipment inventory records, we requested their inventory records and compared those records against our observations of the physical inventory. We assessed the value of inventory items based on our online research and communication with security equipment dealers.

We conducted our performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during our audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

As is our practice, we notified DHS officials at the outset of the audit that we would be requesting a representation letter in which agency management provides assurances, to the best of its knowledge, concerning the relevance, accuracy, and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. Agency

officials normally use the representation letter to assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. They affirm either that the agency has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors. However, officials at the DHS advised us that the New York City Mayor's Office of Operations had informed them that, as a matter of policy, mayoral agency officials do not provide representation letters in connection with our audits. As a result, we lack assurance from DHS officials that all relevant information was provided to us during the audit.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating threats to organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III of the General Municipal Law.

Reporting Requirements

We provided a draft copy of this report to DSS officials for their review and formal comment. Their comments were considered in preparing this final report and are attached to it. In their response, DSS officials agreed with our recommendations and indicated that they have already taken steps to address them.

Within 90 days after final release of this report, we request that the Commissioner of the New York City Department of Social Services report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and if the recommendations were not implemented, the reasons why.

Contributors to This Report

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A team of accountability experts respected for providing information that decision makers value.

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To improve government operations by conducting independent audits, reviews, and evaluations of New York State and New York City taxpayer-financed programs.

Agency Comments



Department of Social Services

Human Resources
Administration

Department of
Homeless Services

W-2-570
11/17

Office Of Audit &
Quality Assurance

April 19, 2018

Steven Banks
Commissioner

Molly Murphy
DSS First Deputy
Commissioner

Mr. Stephen Lynch
NYS Office of the State Comptroller
59 Maiden Lane, 21st Floor
New York, New York 10038

Saratu Gharthey
Chief Program
Accountability Officer

Re: Agency Response to the Draft Report for
the OSC Audit Oversight of Security Expenses
in single Adult and Adult Family Homeless
Shelters 2016-N-6

Maria Ciniglio
Deputy Commissioner

150 Greenwich Street
New York, NY 10007
929 221 7126

Dear Mr. Lynch:

Thank you for sharing with us the Draft Report for the OSC Audit of Oversight of Security Expenses in Single Adult and Adult Family Homeless Shelters 2016-N-6. We have reviewed the referenced report, and our responses are enclosed.

As a threshold matter, we want to emphasize the context in which this audit took place, specifically that much of the time period being audited occurred while the Department of Homeless Services (DHS) was in the midst of a significant reorganization, and had undertaken a comprehensive examination and reform of many of the very policies and processes at issue in this audit. We think it is important for any reader of the report to know that the reason this reorganization was undertaken was as a result of the decision by the Mayor to integrate DHS within the Department of Social Services (DSS), which now includes DHS and the New York City Human Resources Administration (HRA). Each agency has Administrators who report to the Commissioner of the Department of Social Services. Many administrative functions for both agencies, including contracts and procurement, legal, and finance, have been consolidated and serve both agencies. This new structure was implemented following a comprehensive 90-Day Review of DHS operations ordered by Mayor de Blasio that concluded in April 2016. The goal of the review was to ensure New York City's homeless services are delivered as efficiently and effectively as possible in order to prevent, reduce and manage homelessness.

Consistent with the Civil Services Law, the actual integration of functions and personnel to implement the reforms occurred in 2017. The structural reorganization is significant and is continuing to be implemented. As part of this reorganization DSS is reforming processes, work flows, policies and procedures at every level of the agency. Many of these policies and procedures under revision or already implemented relate directly to the issues discussed in the audit report. For example, many of the matters that were audited relate to events that occurred in 2015 and 2016 before the 90-day review reforms began and well before the integration of functions and personnel in 2017 pursuant to the Civil Service Law. Nevertheless, the agency has prioritized the recommendations put forth in this report and, for example, as reflected in our formal response, standard operating procedure reforms and contract language reforms were made during the audit period.

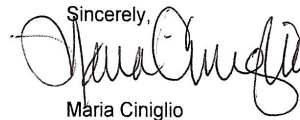
The agency has undertaken a massive effort to develop and update tools which provide guidance to both shelter providers and DHS program staff. In March 2018, the DHS Human Services

Providers Fiscal Manual was updated to include information regarding audits, allowable and unallowable expenses, as well as guidance to providers regarding the ongoing selective review of provider OTPS expenditures. In addition, the DHS Invoice Submission and Review Procedure Guide (which will be formally issued by April 30, 2018 and is already in use by DHS staff) formalizes the DHS process for monthly shelter invoice submission requirements, and will educate Shelter Providers regarding the Shelter Program Administrator periodic review of supporting documentation of invoices and invoice review requirements.

We would also like to take the opportunity to respond to the statements made on page 8 of the draft report regarding the elimination of desk audits conducted by DHS Audit Services from the DHS Human Services Providers Fiscal Manual. The decision to make this change was part of a planned effort to shift the function to the DHS program staff as part of an initiative to enhance the shelter contract monitoring process. We are confident that the protocols outlined in the DHS Invoice Submission and Review Procedure Guide and the enhanced guidance in the DHS Human Services Providers Fiscal Manual provide reasonable assurance that DHS program are adequately and appropriately monitoring expenditures.

Our mission is to serve New York City's most vulnerable population in the most compassionate, efficient and effective manner, while adhering to all applicable rules, regulations and laws by which we are bound. We would like to express our sincere appreciation for the efforts that your office is investing in this review, as it will assist us in achieving our goals.

We are confident that our responses demonstrate our commitment to improving our operations going forward. Should you have any questions, please contact me at (929) 221-7126.

Sincerely,

Maria Ciniglio

Enclosures

**NYC DEPARTMENT OF SOCIAL SERVICES
OFFICE OF AUDIT SERVICES
CORRECTIVE ACTION PLAN**

Audit Name: OSC Audit of Oversight of Security Expenses in Single Adult and Adult Family Homeless Shelters
Audit Number: 2016-N-6

Date: 04/18/2018

Recommendation	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
Recommendation 1: Establish clear, written standard operating procedures for required expenditure reviews.	DHS agrees with this recommendation.	DHS Adult Shelters and DSS Finance	DHS Program will develop a standard operating procedure for expenditure reviews. Program staff will be trained on new procedure. DHS program staff responsible for contract oversight and management will be trained on the new DHS Invoice Submission and Review Procedure Guide.	Drafted December 2017 Final procedure 4/30/18 Initial staff training completed - January 2018 Distribution of final procedure to staff - May 2018
Recommendation 2: Complete monthly expenditure reviews of provider expenses and maintain documentation of the reviews.	DHS agrees with this recommendation.	DHS Adult Shelters and DSS Finance	DHS Adult Services and DSS Finance will develop a standard operating procedure for invoice and expenditure review in accordance	Drafted December 2017 Final procedure

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NYC DEPARTMENT OF SOCIAL SERVICES
OFFICE OF AUDIT SERVICES
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Audit Number: 2016-N-6

Date: 04/18/2018

Recommendation	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
			with the DHS Fiscal Manual and the Department of Social Services Office of Program Accountability Contract Monitoring Office Reference Guide.	4/30/18
			DHS program staff responsible for contract oversight and management will be trained on the new DHS Invoice Submission and Review Procedure Guide.	Initial staff training completed - January 2018 Distribution of final procedure to staff - May 2018
Recommendation 3: Complete annual budget reviews prior to the beginning of the fiscal year.	DHS agrees with this recommendation. DHS provides training and guidance to all DHS contracted shelters in March and April of each prior fiscal year regarding the submittal of the new fiscal year budget. Providers are directed to submit their new fiscal year budgets no later than	DHS Budget	DHS Budget is responsible for reviewing all budgets at Level 1 and Level 4. DHS Programs reviews at Level 3 and 4. DHS Budget and	Completed/On going

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Date: 04/18/2018

Recommendation	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
	May 15 th of the current fiscal year. DHS reviews all new fiscal year budgets that are submitted by May 15 th and approves prior to July 1 of new fiscal year.		Program will ensure that new fiscal year budgets submitted by the established deadline are reviewed and approved prior to the new fiscal year.	
Recommendation 4: Follow-up on the expenditure discrepancies we identified and take appropriate action.	DHS agrees with this recommendation.	DHS Adult Shelters and DSS Finance	DHS program staff will review the expenditure discrepancies, detailed in the fact sheets, and take action, where appropriate.	June 2018
Recommendation 5: Ensure that providers comply with their contractual requirements to retain sufficient documentation supporting proper procurement and payment of security services.	DHS Agrees with this recommendation.	DHS Adult Shelters	DHS will provide guidance to all DHS-contracted shelters during annual fiscal training regarding their responsibility to comply with all contractual requirements to retain sufficient documentation supporting proper procurement and	Started March 2018 and ongoing

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NYC DEPARTMENT OF SOCIAL SERVICES
OFFICE OF AUDIT SERVICES
CORRECTIVE ACTION PLAN

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Audit Number: 2016-N-6

Date: 04/18/2018

Recommendation	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
			payment of services. Program staff responsible for contract oversight and management will conduct annual audits to ensure that DHS-contracted providers retain documentation supporting proper procurement and payment of security services.	May 2018
Recommendation 6: Periodically review the credentials of providers' security personnel.	DHS Agrees with this recommendation.	DHS Adult Shelters	Program staff will conduct semi-annual review of the credentials of DHS-contracted providers' security personnel.	May 2018

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Date: 04/18/2018

Recommendation	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
Recommendation 7: Maintain a current inventory of security equipment located at all shelters that reflects best practices for inventory record keeping.	DHS agrees with this recommendation. DHS will adopt a two-phase approach: Phase I – short term solution – DHS will obtain the current security inventory lists from providers. Phase II – long term comprehensive solution – DHS will set-up a formal framework to address the deficiencies in the inventory tracking process. DHS will develop a comprehensive sustainable solution to ensure inventory records are kept up to date and include descriptions, quantities, locations, dates of purchase and original cost.	DHS Adult Shelters DHS Executive Staff	DHS will obtain the current security inventory lists from providers. DHS Executive Staff will coordinate internal efforts and convene a work group and facilitate internal discussion to formulate a comprehensive sustainable solution and plan.	Completed March 2018 Started December 2017/Ongoing
Recommendation 8: Ensure that providers comply with all contractual requirements, including the submission of inventory maintenance standard operation procedures and security equipment inventory records.	DHS agrees with this recommendation.	DHS Adult Shelters	DHS will provide guidance during annual fiscal training regarding their responsibility to comply with all contractual requirements.	Started March 2018 and ongoing

**NYC DEPARTMENT OF SOCIAL SERVICES
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Audit Number: 2016-N-6

Date: 04/18/2018

Recommendation	Agency Response	Responsible Unit	Agency Corrective Action	Target Date
			DHS program staff responsible for contract oversight and management will conduct annual audits to ensure submission of inventory maintenance standard operating procedures and security equipment inventory records.	May 2018
Recommendation 9: Maintain consistency in contract clauses, including the submission of inventory records.	DHS agrees with this recommendation.	DSS Legal	OLA will revise all shelter agreements to include the language indicated in the CAP.	Completed
Recommendation 10: Maintain consistency in contract clauses, including ownership interest of security equipment, and remove the "in excess of \$5,000" language.	DHS agrees with this recommendation.	DSS Legal	OLA will revise all shelter agreements to include the language indicated in the CAP.	Completed